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M E M O R A N D U M

To: Milpitas City Council

From: Dyett & Bhatia

Re: Proposed Revisions to the Milpitas Transit Area Preferred Plan

Date: December 4, 2006

Introduction

In May 2006 the City Council reviewed the Preferred Plan for the Milpitas Transit Area, gave direction regarding specific revisions, and directed staff to proceed with the development of the full Specific Plan and Environmental Impact Report. Since that time City staff and the consultant team have been working on the Specific Plan preparation and environmental analysis, and have held meetings with stakeholders and property owners. The market analysis has been reviewed in light of recent softening of the housing market. Also, staff has concluded based on discussions with VTA that the railroad spur in the Piper-Montague sub-area is not likely to be relocated as part of the BART extension project. Based on all of this analysis and new information, City staff recommends revisions to the Transit Area Preferred Plan. These adjustments affect the Great Mall/Montague and Piper-Montague sub-areas only.

Great Mall Montague Sub-Area: Reduced Retail Requirement and Hotel Development not Mandatory

The main change is a reduction in the area where retail is required, proportional to the amount of residential development. In parts of the Great Mall/Montague subarea, 200 square feet of retail must be provided for every 1,000 square feet of residential floor area. This was formerly required in most of the subarea; now this requirement only applies to parcels closest to Great Mall Parkway. The retail requirement has been removed from around 42.5 acres of land. Most of the land formerly requiring retail development is now designated as regular High Density Transit Oriented Residential, with areas along Montague Expressway designated as Boulevard Very High Density Mixed Use.

The reason for this proposed change relates to the housing market and the timing of development. The amount of retail square footage originally proposed in this area (approximately 500,000 square feet) was based on a full build-out of the Transit Area. The full build-out of the residential units is needed to support the retail in this area. However the City might have to wait 10-20 years for this build-out, particularly in light of the housing market softening. With a reduced retail requirement, development can proceed within the next 2-5 years. In staff's judgment, it is very important to have the development of this area proceed, as a catalyst for the entire Transit Area plan implementation.

Hotel development is no longer proposed to be mandatory; instead the two areas are marked as *potential* hotel sites. Input from stakeholders and the market analysis indicate that an absolute mandate for hotel requirement is too onerous. The market demand for hotel development could occur much later in the planning timeframe, and there will be a very short time window for that development opportunity. Also, freeway sites may prove to be more desirable for hotel operators.

The effects of these changes on future development are:

- a large reduction in the amount of retail floor area
- a slight decrease in housing units, and
- a modest increase in office development.

A summary of these effects is shown in the table below:

Milpitas Transit Area - Updated Preferred Plan
Projected New Development (*reasonable worst case scenario*)

	Updated Preferred Plan	*OLD Preferred Plan*	*Change*
Housing Units	7,109	7,185	-76
Total Office Area (sq. ft.)	993,843	813,343	180,500
Total Retail Area (sq. ft.)	287,075	520,026	-232,951
Total Hotel Area (sq. ft.)	175,500	175,500	0

Fiscal Impacts of Reduced Retail

The consultant team has re-run the fiscal impacts model to assess the fiscal impacts of reduced retail. The table explaining the revised fiscal impacts is attached. Under the previous scheme, the community facilities district fee to establish revenue and cost neutrality for the City was $350 per unit, close to its existing rate. Under the new scenario with reduced retail, the fee would need to be increased to approximately $450 per unit to achieve revenue and cost neutrality. The revised fiscal analysis takes into account the softening of the housing market. It also assumes the hotel development does occur in the study area at some point during the planning period.

Piper Montague Sub-Area: Parcels Changed to Boulevard Mixed Use

In the Piper Montague Sub-area, the two parcels fronting Montague Expressway closest to Milpitas Boulevard were previously designated Very High Density Transit-Oriented Residential. In view of the fact that the railroad spur is likely to remain in place during the planning period, City staff and the consultant team believe that it is appropriate to designate these sites for mixed use rather than residential. These properties will be subject to train noise, and will be cut off from the new residential neighborhood to the north. In the Boulevard Mixed Use designation, those sites can be commercial or office uses, as well as residential.

Presentation by the Consultant Team

At the City Council meeting, the consultant team will provide a more detailed discussion of the proposed changes, and will give a status report on the project's progress and schedule. Field Paoli, the architects who are part of the consultant team, will present examples of mixed use projects comparable to that envisioned for the Great Mall Montague Sub-Area as it is proposed to be reconfigured. Bill Lee of Economics Research Associates, the economics consultant, will discuss the fiscal impact issues.

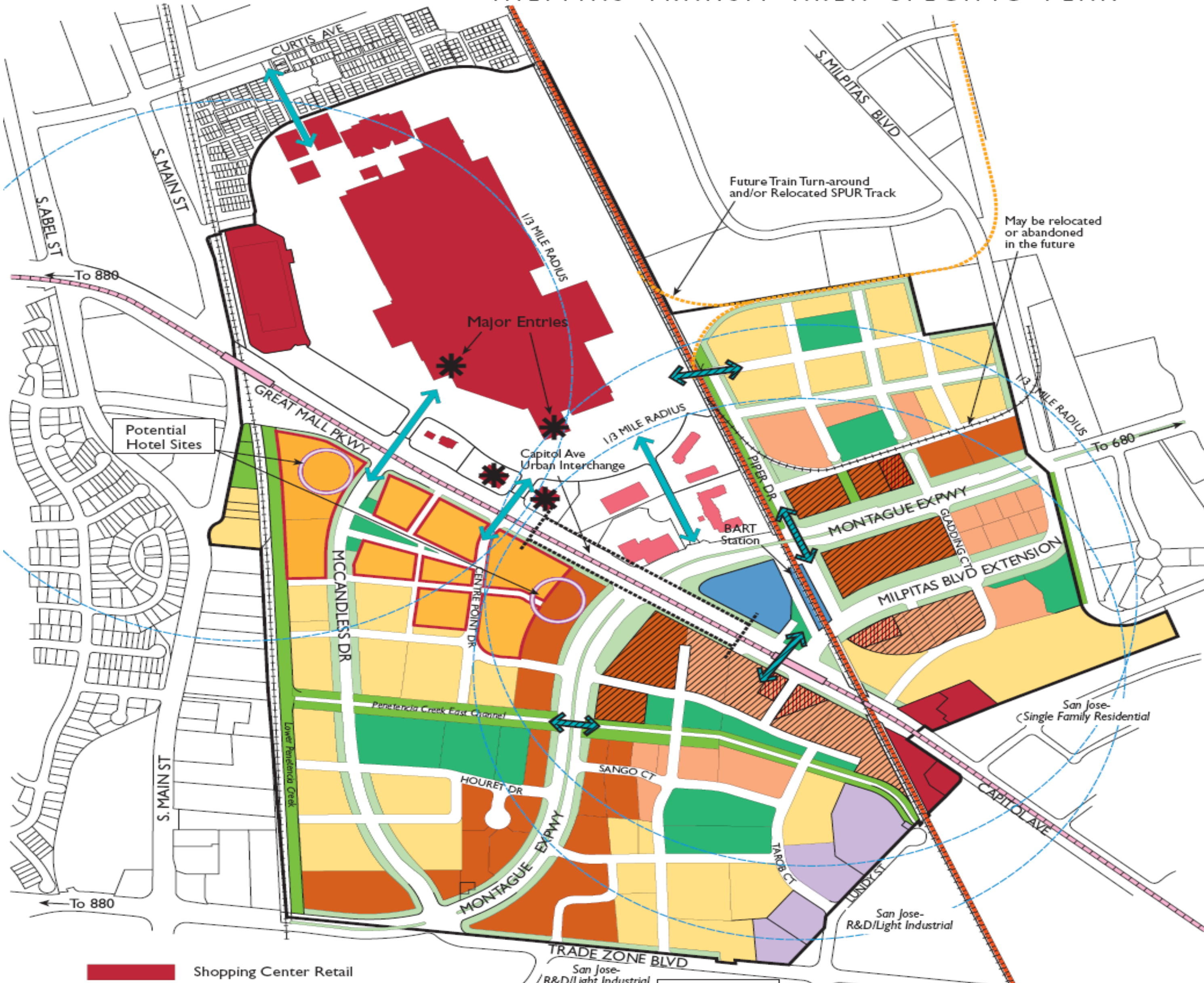
Next Steps

The Draft Specific Plan is expected to be released in early March, and the Draft EIR soon thereafter. Allowing for a normal EIR public review and response to comments, staff anticipates bringing the Final Specific Plan and Final EIR to the City Council for action in July 2007.

Attachments:

1. Milpitas Transit Area Preferred Plan, revised Dec. 1, 2006
2. Illustrative Plan for the Great Mall/Montague Sub-Area
3. Revised Fiscal Impact Analysis

MILPITAS TRANSIT AREA SPECIFIC PLAN



10 acres

0 300 600 1200
FEET

Shopping Center Retail

Retail Mixed Use
Community and Regional Retail; Hotels, Office. Maximum gross FAR of 2.5

Boulevard Very High Density Mixed Use
Permitted uses include Residential, Office, Commercial and Medical uses
Minimum gross density of 1.0 FAR; up to 1.5 maximum gross FAR,
an FAR of 2.5 may be permitted on individual sites. Residential use shall have
41un/ac minimum average gross density; 60 un/ac maximum average gross density

Residential - Retail High Density Mixed Use
Residential, office, and/or hotel uses above ground floor retail and restaurants. 200 sq. ft of retail or restaurant use required for every 1000 sq. ft. of residential or office use. Residential density: 31du/ac minimum average gross density; 40 un/ac maximum average gross density

Very High Density Transit Oriented Residential
41 un/ac minimum average gross density; 60 un/ac maximum average gross density; 4-12 stories; gross densities of individual projects may be <40 or >60, provided that area development complies with average gross density; small local-serving retail, office, and live/work permitted at ground floor

High Density Transit Oriented Residential
31 un/ac minimum average gross density; 40 un/ac maximum average gross density; 3-5 stories; gross densities of individual projects may be <30 or >40, provided that area development complies with average gross density; residential uses only

Transit Facilities

Light Industrial/R & D

Parks/Plazas/Community Facilities

Linear Park and Trails

Landscaped Front Yards and Buffers

Neighborhood Retail Locations
5000-10,000 sq. ft. of local serving retail required on the ground floor.

Transit Density Overlay
An increase of 25 percent on land use permitted on sites within 1/4 mile of BART and close to Montague light rail

Potential Hotel Sites

Proposed BART Line

VTA Light Rail Transit

Union Pacific Railroad and Railroad Spur

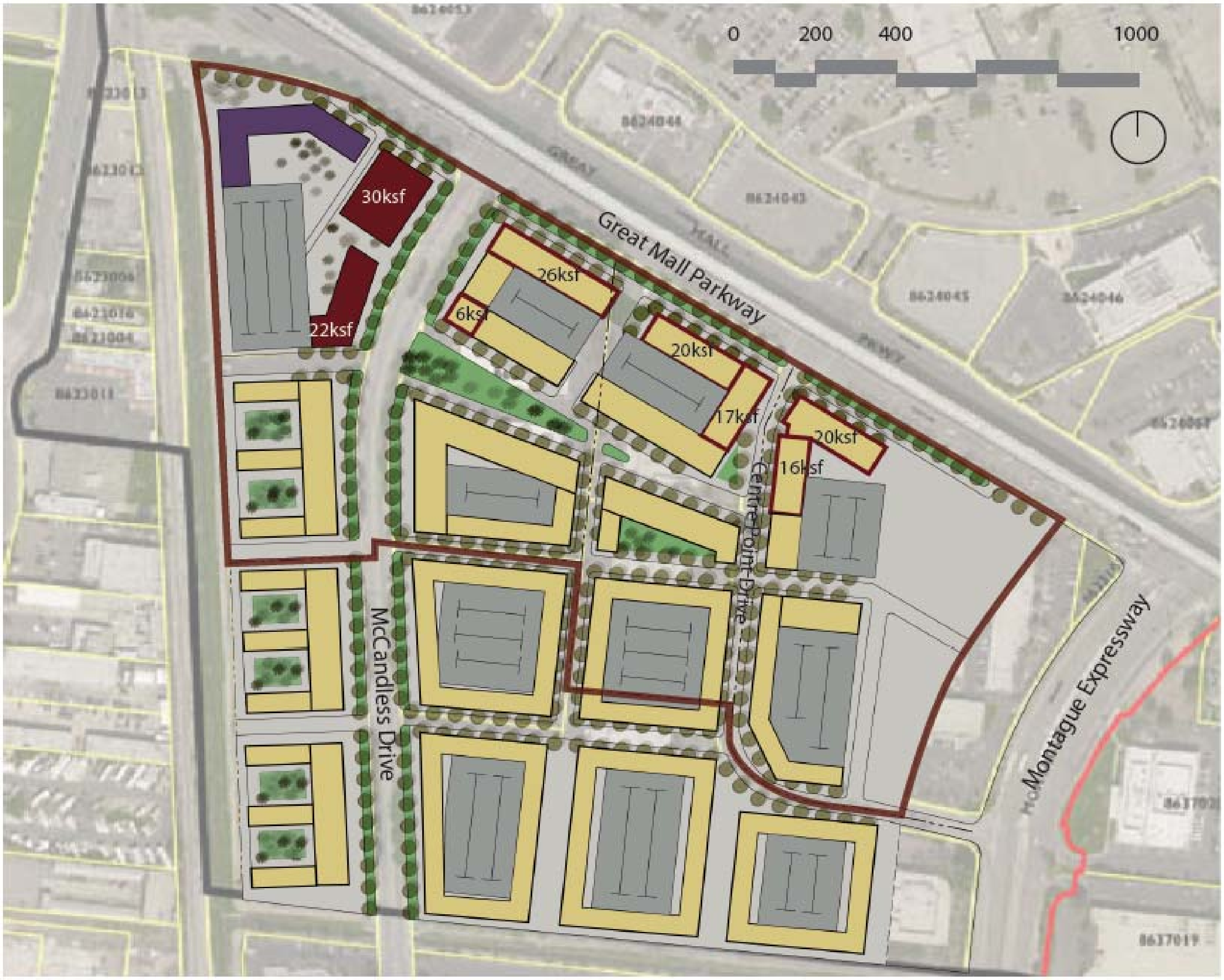
Future Train Turn-around and/or Relocated Spur Track

Study Area

Pedestrian Connection

Pedestrian Bridge

Preferred Plan
December 4, 2006



Illustrative Plan

Within the area designated for Residential- Retail High Density Mixed Use, the illustrative plan shows 1,000 units of residential development, 160,000 sf of retail, and a 280-room hotel, which is consistent with the proposed Preferred Plan requirements.

Legend

- Hotel (Office or Residential also permitted)
- Residential
- Retail, Restaurants, and Personal Services
- Mixed Use: Residential or Office above Retail
- Parking
- Parks/Courtyards
- Residential-Retail High Density Mixed Use Area

MILPITAS TRANSIT AREA SPECIFIC PLAN FISCAL ANALYSIS

21-Nov-06

Alternative C: 5,200 Housing Units, 275,000 SF Retail & $450 CFD

Economics Research Associates

Incorporates Comments by Emma Karlen, Finance Director

Table 1

MILPITAS TRANSIT AREA FISCAL ANALYSIS: INPUT ASSUMPTIONS & OUTPUT CONCLUSIONS

Alternative C: 5,200 Housing Units, 275,000 SF Retail & $450 CFD

Inflation Rate 2006-2030	2.95%	ERA Assumption
TOTAL PROJECT AREA (Acres)	437	Dyett & Bhatia
Great Mall Redevelopment Area	146	Dyett & Bhatia
Other Redevelopment Area	245	Dyett & Bhatia
Piper Montague (Outside RDA Area)	46	Dyett & Bhatia

BUILD-OUT ASSUMPTIONS BY 2030: MODEL INPUT

Total Housing Units	**5,200**	**Dyett & Bhatia & City of Milpitas**
Hotel Units	**350**	**Dyett & Bhatia Based Upon ERA Market Analysis**
Office Space in SF	**800,000**	**Dyett & Bhatia Based Upon ERA Market Analysis**
Retail Space in SF	**275,000**	**ERA Market Analysis & Property Owner Input**

Rental and Below Market Housing

Number of Units	1,300	25% of total units
Average Unit Size (NSF)	960	ERA Market Based Assumption
Average Unit Size (GSF)	1,091	ERA Market Based Assumption
Assessed Value per SF	$175	Represents Mostly Below Market Housing
Assessed Value per Unit	$190,909	Represents Mostly Below Market Housing

Market Rate Owner Housing

Number of Units	3,900	75% of total units
Average Unit Size (NSF)	1,760	ERA Market Based Assumption
Average Unit Size (GSF)	2,000	ERA Market Based Assumption
Assessed Value per SF	$325	ERA Market Based Assumption
Avg Sales Price in 2006	$572,000	ERA Market Based Assumption

Office Space

Number of Buildings	NA	ERA Market Based Assumption
Total Size in GSF	800,000	ERA Market Based Assumption
Assessed Value per SF (2006 dollars)	$340	ERA Market Based Assumption

Retail Space

Number of Buildings	NA	
Total Size in GSF	275,000	ERA Market Based Assumption
Assessed Value per SF (2006 dollars)	$250	ERA Market Based Assumption
Retail Sales per SF per Year	$325	ERA Market Based Assumption

Hotel

Number of Properties	1	ERA Market Based Assumption
Number of Rooms	350	ERA Market Based Assumption
Number of SF	217,000	Dyett & Bhatia
Room Rate in 2006 Dollars	$145	ERA Market Based Assumption
Assessed Value per SF (2006 dollars)	$300	ERA Market Based Assumption

OUTSIDE REDEVELOPMENT AREA - PIPER MONTAGUE SUBAREA ONLY (46 Gross Acres)

Number of Rental Housing Units	232	Average Density of 36 per Net Acre
Number of Owner Units	927	Average Density of 36 per Net Acre
Retail SF	20,000	Local Serving Retail

Table 1

MILPITAS TRANSIT AREA FISCAL ANALYSIS: INPUT ASSUMPTIONS & OUTPUT CONCLUSIONS
Alternative C: 5,200 Housing Units, 275,000 SF Retail & $450 CFD

WITHIN REDEVELOPMENT AREA - EXCLUDES PIPER MONTAGUE SUBAREA (391 Gross Acres)

Number of Rental Housing Units	1,068	Project Area less Piper Montague
Number of Owner Housing Units	2,973	Project Area less Piper Montague
Number of Hotel Units	350	Project Area less Piper Montague
Amount of Retail Space	255,000	Project Area less Piper Montague
Amount of Office Space	800,000	Project Area less Piper Montague

KEY REVENUE & COST ASSUMPTIONS

Property Tax or Tax Increment		
RDA Tax Increment Share	60.00%	Years one through ten
RDA Tax Increment Share	43.20%	Years 11 through 30
General Fund Property Tax Share	19.00%	Applies only to Piper Montague Subarea
CFD Per Residential Unit per Year	$450.00	Adjsuted Annualy by Higher of CPI or 2%
Taxable Retail Sales Generation		
Per New Resident per Year	$10,000	Total based countywide average
Per New Resident per Year	$1,800	Amount Spent in New Project Area Retail Development[1]
Per New Resident per Year	$3,500	Amount Spent in Great Mall & Other Parts of Milpitas
Per New Resident per Year	$4,700	Leakage to Other Communities
Per New Employee	$2,400	Total Associated with Place of Work
Per New Employee	$1,000	Amount Spent in New Project Area Retail Development[1]
Per New Employee	$1,400	Amount Spent in Great Mall & Other Parts of Milpitas
Transient Occupancy Tax		
Tax Rate	8.0%	City Finance Department (Excludes 2% Dedicated to Library)
Hotel Occupancy Rate	70.0%	Long Term Stablized Occupancy Rate
Net Service Cost Impact		
Per New Resident	$571	See Tables 2 & 3 for allocation and computation
Per New Employee	$161	See Tables 2 & 3 for allocation and computation

SUMMARY OF FISCAL IMPACTS: CUMULATIVE 2006-2030 (in millions)

New Tax Increment Revenue for Redevelopment Agency	**$275.3**
Additional General Fund Cost & Revenue for City	
New Property Taxes	**$48.3**
New Sales Tax	**34.9**
New Transient Occupancy Tax	**38.6**
New CFD Revenue	**50.5**
New Service Cost	**(171.6)**
Net Cumulative Cost Revenue Balance 2006-2030	**$0.7**
Combined RDA and General Fund Impact	**$276.0**

ERA Project No. 16105
Nov 21, 2006